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STATE OF MONTANA

MONTANA ARTS COUNCIL

Report on Examination of Financial Statements

Fiscal Year Ended June 30, 1976

OFFICE OF THE LEGISLATIVE AUDITOR
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STATE OF MONTANA

MONTANA ARTS COUNCIL

Report on Examination of Financial Statements

Fiscal Year Ended June 30, 1976

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

MONTANA ARTS COUNCIL MEMBERS

		Term Expires
Maxine Blackmer, Chairperson	Missoula	1978
G. David Shaner, Vice Chairman	Bigfork	1978
Frances S. Byerly	Lewistown	1978
Lawrence Hayes	Helena	1978
Marian Thielman	Chester	1978
Ceridwen Breen	Hamilton	1980
Mary Cordingley	Great Falls	1980
Peggy Hodge	Butte	1980
John Johnson	Glendive	1980
Roberta Taylor	Butte	1980
Shirley Bentley	Helena	1982
Alan Goddard	Butte	1982
Robert Morrison	Billings	1982
James Pasma	Havre	1982
Jessica Stickney	Miles City	1982

ADMINISTRATIVE OFFICIALS

David E. Nelson, Executive Director

Jo Anne Mussulman, Administrative Assistant

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the Montana Arts Council is included in the back of this report.

	Page
Discontinue making payments to sub-grantees prior to the execution of the grant contract.	3
Agency Reply: Concur. See page 23.	
Execute contracts with all sub-grantees.	3
Agency Reply: Concur. See page 23.	
Retain written documentation supporting additional funds granted to sub-grantees.	3
Agency Reply: Concur. See page 23.	
Make all payments to sub-grantees payable to the art organization which received the grant.	3
Agency Reply: Concur. See page 23.	
Require a financial statement comparable to the Internal Revenue Service's form 990 from all organizations seeking general support grants.	4
Agency Reply: Conur. See page 23.	
Discontinue funding any grantee which fails to maintain adequate records supporting grant expenditures.	4
Agency Reply: Concur. See page 23.	
Require employees to record their own time and attendance on a standard time and attendance record.	6
Agency Reply: Concur. See page 24.	
Require supervisors to approve time and attendance records.	6
Agency Reply: Concur. See page 24.	

SUMMARY OF RECOMMENDATIONS (Continued)

	Page
Require payroll personnel to base the actual payroll on time and attendance records prepared by the employees.	6
Agency Reply: Concur. See page 24.	
Require employees to use standard forms prepared by the Department of Administration regarding employee leave.	6
Agency Reply: Concur. See page 24.	
Require payroll personnel to maintain complete and up-to-date personnel files.	6
Agency Reply: Concur. See page 24.	
Record all money in a cash log at the time it is received.	8
Agency Reply: Concur. See page 24.	
Restrictively endorse negotiable instruments at the time of initial receipt.	8
Agency Reply: Concur. See page 24.	
Adequately secure all collections.	8
Agency Reply: Concur. See page 24.	
Deposit moneys in local banks as prescribed by the Montana Administrative Manual.	8
Agency Reply: Concur. See page 24.	
Reconcile the money recorded in the cash log to the money deposited.	8
Agency Reply: Concur. See page 24.	
Use prenumbered invoices and check them against subsequent collections and deposits.	8
Agency Reply: Concur. See page 24.	
Transfer grant moneys to be used for the operation of state government to the federal and private revenue fund prior to disbursement.	9
Agency Reply: Concur. See page 24.	

	Page
Comply with Section 40-3905.1, R.C.M. 1947, regarding the state's health insurance contributions.	9
Agency Reply: Concur. See page 25.	
Execute contracts with all individuals performing professional services for the council.	10
Agency Reply: Concur. See page 25.	
Comply with Chapter 1-0900 of the MAM regarding personal long distance calls.	10
Agency Reply: Concur. See page 25.	
Properly secure its postage at all times.	11
Agency Reply: Concur. See page 25.	
Determine the extent of its potential liability regarding the assets it holds in trust and take the necessary steps to prevent loss to the state.	11
Agency Reply: Concur. See page 25.	
Retain documentation at the agency supporting all expenditures.	12
Agency Reply: Concur. See page 25.	
Require all necessary details on travel claims.	12
Agency Reply: Concur. See page 25.	
Comply with the MAM requirements regarding expenditure accruals.	13
Agency Reply: Concur. See page 26.	
Conduct an annual physical inventory of its fixed assets.	13
Agency Reply: Concur. See page 26.	

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

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JOSEPH J. CALNAN
ADMINISTRATION AND PROGRAM AUDITS
ELLEN FEAVER
FINANCIAL-COMPLIANCE AND CONTRACTED AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

To the Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the Montana Arts Council as of June 30, 1976, and the related statements of revenue compared to revenue estimates, expenditures compared to appropriations, expenditures by object, changes in fund balances, and changes in general fixed assets for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The agency's accounting records improperly report accounts payable of $9,210 in the Federal and Private Grant Clearance Fund. The total of these accounts payable should be approximately $3,500. Accounts payable at the beginning of the year were understated by approximately $2,400. The improper reporting of these liabilities misstates the balance sheet, the statement of changes in fund balance, the statements of expenditures compared to appropriations, and the statement of expenditures by object, as described on page 12 of this report.

The agency made $131,519 of non-grant expenditures from the Federal and Private Grant Clearance Fund. Because these expenditures were for the operation of state government, the money should have been transferred to the Federal and Private Revenue Fund and appropriated from this fund

prior to disbursement. These accounting errors caused a $131,519 understatement of revenue and expense in the Federal and Private Revenue Fund and a corresponding overstatement of revenue and expense in the Federal and Private Grant Clearance Fund. This matter is further described on page 8 of this report.

In our opinion, because of the effects of the matters discussed above, the balance sheet and statement of changes in fund balances do not present fairly the Federal and Private Revenue Fund and Federal and Private Grant Clearance Fund financial position as of June 30, 1976 and the changes in these fund balances for the year then ended. Additionally, the statement of revenue compared to revenue estimates, the statement of expenditures compared to appropriations, and the statement of expenditures by object do not present fairly the Federal and Private Revenue Fund and Federal and Private Grant Clearance Fund revenues and expenditures for fiscal year 1975-76 in conformity with generally accepted accounting principles.

In our opinion, the financial statements listed in the accompanying table of contents, with the execption of those mentioned in the preceding paragraph, present fairly the financial position of the various funds of the Montana Arts Council at June 30, 1976 and the results of operations of such funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett, C.P.A.
Legislative Auditor

March 21, 1977

COMMENTS

GENERAL

In 1967 the legislature created the Montana Arts Council, which consists of fifteen members appointed by the Governor, with the consent of the Senate. From the council the Governor designated a chairman and a vice chairman; the chairman to act as chief executive officer of the council. Council members serve five-year terms.

In 1974 the legislature allocated the Montana Arts Council to the State Board of Education for purposes of planning and coordination; however, management and control of the agency lie with the council.

The duties of the Montana Arts Council include: (1) to encourage throughout the state the study and presentation of the arts, (2) to cooperate with public and private institutions in artistic and cultural activities, and (3) to foster public interest in the cultural heritage of our state and to expand the state's cultural resources.

The Montana Arts Council receives federal grants from the National Endowment for the Arts as its main source of revenue. The council, in turn, contracts with individuals and grants funds to art organizations in the state for various art projects. The National Endowment requires that the funds be matched by the state or sub-grantee on at least a one to one basis.

The council established committees specialized in various art fields to act in an advisory capacity to the council. These are music, dance, visual arts, drama, combined projects, and artists in the schools. The committees generally review grant requests and provide their recommendations to the council. The council, through its general meetings, makes the final determination on most grants. An executive committee

made up of council members specialized in certain art fields make determinations on all other grants. The council later ratifies grants made by the executive committee. Neither the council nor the committee members receive any compensation for their services other than reimbursement of travel expenses.

The council's office is located in Missoula. The council employs four full-time personnel to administer the programs approved by the council. The positions are executive director, administrative assistant, program director, and secretary.

GRANTS

The council made approximately 75 grants during fiscal year 1975-76. We reviewed a sample of these to determine the council's compliance with the laws and regulations surrounding the administration of the grants. We also performed a limited review of selected sub-grantees' records to determine their compliance with the terms of the grant contracts. We discuss our findings below.

Grant Contracts

During fiscal year 1975-76 the council made payments to arts organizations without adequate grant contracts. We found that the council (1) made a payment to one sub-grantee prior to the execution of the grant contract, (2) had a grant contract which one sub-grantee did not sign, and (3) did not have a grant contract for another sub-grantee. We also found that the council, when awarding additional funds to a sub-grantee, altered the existing contract to correspond to the revised amount without adequate documentation supporting the change.

In order for the council to have adequate control and assure performance by art organizations, it should have signed contracts with

all sub-grantees prior to making payments. When the council awards additional funds to a sub-grantee already under contract, it should retain written documentation supporting the additional moneys granted.

RECOMMENDATION

We recommend that the council:

1. *Discontinue making payments to sub-grantees prior to the execution of the grant contract.*
2. *Execute contracts with all sub-grantees.*
3. *Retain written documentation supporting additional funds granted to sub-grantees.*

Grant Payments

The council normally makes payments to sub-grantees in the name of the art organization; however, in some cases we found that the council had made payments payable to individuals at the art organization. We also found that these individuals did not restrict their endorsement of the warrants to the deposit of the art organization's account. Although we found no misuse of funds, making payments in the name of the art organization provides an additional control to prevent unauthorized cashing of warrants.

RECOMMENDATION

We recommend that the council make all payments to sub-grantees payable to the art organization which received the grant.

Sub-grantees' Financial Statements

Section 10-3.6 (6) S620 of the Montana Administrative Code (MAC), requires each organization seeking general support grants to present a financial statement comparable to the Internal Revenue Service's form 990. We found that the council does not enforce this requirement of

its sub-grantees. In a review of five selected sub-grantees receiving general support grants, we found that the council did not have a financial statement for four of them.

RECOMMENDATION

We recommend that the council require a financial statement comparable to the Internal Revenue Service's form 990 from all organizations seeking general support grants.

Sub-grantees' Records

Our review of sub-grantees' records disclosed that not all sub-grantees maintain adequate records supporting their grant funds. One selected sub-grantee we visited could not find five months' bank statements supporting the grant funds for the year in which we were auditing. In addition, no invoices were readily available supporting the use of the funds received from the council. Because of this, we were unable to perform auditing tests necessary to determine whether all the funds were received and deposited or the purposes for which the funds were expended.

The grant contract with the sub-grantees states that sub-grantees shall maintain accounts, records, and other evidence pertaining to the costs incurred and the revenues acquired under the grant.

RECOMMENDATION

We recommend that the council discontinue funding any grantee which fails to maintain adequate records supporting grant expenditures.

PERSONAL SERVICES

The council employs four full-time employees to carry out the directives of the council. Because of the small number of staff, the office operates on an informal basis regarding documentation of payroll information. The office staff do not use many of the standard forms

provided by the Department of Administration or other forms needed to document payroll information. As a result, we could not perform certain standard audit tests due to the lack of documentation.

Time and Attendance Records

Each employee is required to work 40 hours each week or take some form of leave for his or her absence. However, the office staff do not keep time and attendance records. Because of this, the council has no supporting documentation for its employees' actual hours worked each pay period. The use of time and attendance records prepared by the employees and approved by their supervisor would provide adequate documentation for their actual hours worked and resultant pay.

Request for Leave of Absence

The staff do not use the standard form provided by the Department of Administration for requesting leave of absence. The staff receive verbal approval from their supervisor and are responsible for informing the secretary of their absences. The secretary then records this information in the leave records. This procedure provides little assurance of accurate leave records or actual approval of the absences recorded. The use of the standard form for requesting leave of absence provides payroll personnel adequate documentation for recording the leave in the leave records. It also provides subsequent documentation of actual leave taken and approval of the leave recorded.

Records Retention

The council did not retain certain payroll forms needed for accurate payroll processing. The following lists the form name and purpose for which the council's files were incomplete.

Form	Purpose
W-4	Authorizes the number of employee's exemptions claimed
Payroll Status	Authorizes pay rates and payroll deductions

The council should maintain these forms and other pertinent information in a personnel file for each employee to insure accurate payroll processing.

RECOMMENDATION

We recommend that the council require:

1. *Employees to record their own time and attendance on a standard time and attendance record.*
2. *Supervisors to approve time and attendance records.*
3. *Payroll personnel to base the actual payroll on time and attendance records prepared by the employees.*
4. *Employees to use standard forms prepared by the Department of Administration regarding employee leave.*
5. *Payroll personnel to maintain complete and up-to-date personnel files.*

CASH RECEIPTS

Internal Control

We performed a review and evaluation of the council's system of internal control over cash receipt collecting, recording, and depositing procedures. Internal control over cash receipts includes proper separation of duties and certain other controls to insure that cash is promptly processed, adequately controlled, and accurately recorded. Because of the small number of council employees, it must forfeit many internal control measures to enable efficient operation of the office. However,

the council lacks the necessary controls surrounding cash receipts, as discussed below.

Checks Received

During January 1977 the council held four checks totaling $3,075 for an average of 22 days before depositing them. The council kept these checks in an unlocked file cabinet and did not restrictively endorse or record them upon receipt. These procedures can be improved regardless of the number of employees.

The Montana Administrative Manual, Chapter 2-1210, states that negotiable instruments shall be restrictively endorsed at the time of initial receipt. Collections shall be recorded on a daily basis indicating the total amount collected and as a minimum be stored in a locked box appropriately secured. Those agencies outside the Capitol complex are to deposit state moneys in a local bank established by the State Treasurer as an approved depository. All moneys received shall be deposited whenever the amount of coin and currency requiring deposit exceeds $100 or total collections exceed $500. In any event, all moneys collected are required to be deposited at least weekly.

Billing Procedures

The council collects grant matching money from various schools in the state which participate in the Artists in the Schools program. A council employee prepares an invoice to bill for the moneys due the council. She numbers each invoice prior to sending it; however, the invoices are not prenumbered. Manually numbering invoices presents the potential problem of a duplicate number or omitting one--causing a loss of control over billings. The use of prenumbered invoices acts as an effective means to account for all invoices, billings, collections, and subsequent deposits of revenue.

RECOMMENDATION

We recommend that the council:

1. *Record all money in a cash log at the time it is received.*
2. *Restrictively endorse negotiable instruments at the time of initial receipt.*
3. *Adequately secure all collections.*
4. *Deposit moneys in local banks as prescribed by the Montana Administrative Manual.*
5. *Reconcile the money recorded in the cash log to the money deposited.*
6. *Use prenumbered invoices and check them against subsequent collections and deposits.*

EXPENDITURES

Federal and Private Grant Clearance Fund

During fiscal year 1975-76, the council made $131,519 of non-grant expenditures from the federal and private grant clearance fund without an appropriation. These expenditures related directly to the operation of the agency and included office equipment for the council staff and expenses of contracted employees such as supplies, salaries, and travel. The council coded these expenditures as grants from federal sources, and as a result, the financial statements do not accurately show expenditures by object.

Section 79-410, R.C.M. 1947, regarding the federal and private grant clearance fund, states that those moneys to be used for the operation of state government shall be transferred to the federal and private revenue fund prior to disbursement. Expenditures from this fund require an appropriation or a budget amendment--thus, providing the needed control over expenditures for the operation of the agency.

RECOMMENDATION

We recommend that the council transfer grant moneys to be used for the operation of state government to the federal and private revenue fund prior to disbursement.

Health Insurance Contributions

During fiscal year 1975-76 the state contributed $10 per month toward insurance premiums of state employees who participate in group insurance plans. Each pay period the State Auditor deducts from state employees' salary warrants an amount equal to the employees' insurance premium less the state's contribution. The State Auditor then makes full payment directly to the insurer. This procedure is specified in Section 40-3905.1, R.C.M. 1947.

The council does not have a group insurance plan for its staff, and only one employee benefits from the state's insurance contribution. In addition, the council does not follow the withholding procedures previously described. The council's staff prepare a claim equal to the state's contribution and make payments directly to the employee, thus bypassing the State Auditor. In order for the council's employees to legally receive benefit from the state's contribution, the staff must participate in a group insurance plan, and the State Auditor must make payments directly to the insurer as previously described.

RECOMMENDATION

We recommend that the council comply with Section 40-3905.1, R.C.M. 1947, regarding the state's health insurance contributions.

Lack of Contracts

During fiscal year 1975-76, the council's staff employed six individuals to perform professional services relating to the arts. These

services included the preparation of a film, the services of a writer, and a poet. The council's staff were in contact regularly with some of these individuals, and were able to monitor their progress. However, the council did not have contracts with the artists. In order to assure performance of the services agreed upon by both parties, the council should execute contracts with these individuals.

RECOMMENDATION

We recommend that the council execute contracts with all individuals performing professional services for the council.

Personal Calls Charged to the State

We found that the council's administrative staff make personal long distance calls which get charged to the state. The council's staff process a claim to pay for the monthly phone bills, then later make reimbursement for the charges relating to their personal calls. Even though employees later make reimbursement, this procedure results in the state's initially paying expenses not related to state business.

Chapter 1-0900 of the Montana Administrative Manual (MAM) states in part that personal long distance calls will not be made from state telephones unless arrangements are made with the long distance telephone operator at the time the call is placed to have the call billed to the caller's home telephone or credit card, or to place the call "collect".

RECOMMENDATION

We recommend that the council comply with Chapter 1-0900 of the MAM regarding personal long distance calls.

Lack of Control over Postage

The council purchases up to $130 worth of postage every month. The staff secretary keeps this postage in her desk drawer which many times remains unlocked. The council should delegate one employee responsible for the postage and should instruct that employee on proper safeguarding procedures.

RECOMMENDATION

We recommend that the council properly secure its postage at all times.

ASSETS HELD IN TRUST

In addition to the fixed assets in the financial statements, the council maintains possession of art works owned by individuals. The council displays these works of art in its office in Missoula and has an inventory listing of them. In case of theft or fire damage, the council could have possible liability with respect to these works of art. Because of this, the council should know the full extent of its potential liability, if any, and take the necessary action to prevent loss to the state.

RECOMMENDATION

We recommend that the council determine the extent of its potential liability regarding the assets it holds in trust and take the necessary steps to prevent loss to the state.

TRAVEL

We performed a review of the council's travel expenditures to determine compliance with the applicable laws and regulations governing travel. We found the problems discussed below.

The council does not retain adequate documentation at the agency supporting all travel claims. The council submits original invoices to Helena as a basis for payment but occasionally fails to retain copies of the invoices at the agency. To properly account for all expenditures and have a ready reference when questions arise, the council should maintain adequate documentation at the agency supporting its expenditures.

The council's travel claims lacked the necessary travel details to determine whether or not it complied with applicable laws and regulations. Certain of these travel details include departure time, arrival time, and mode of transportation. Without this information, the council cannot determine the accuracy of the reimbursements claimed.

RECOMMENDATION

We recommend that the council:

1. *Retain documentation at the agency supporting all expenditures.*
2. *Require all necessary details on travel claims.*

ACCRUAL ERRORS

Our review of the council's expenditures disclosed that it did not properly process accruals to reflect expenditures in the correct fiscal year. Accruals at the beginning and at the end of fiscal year 1975-76 were misstated due to either errors or a lack of appropriation authority to pay valid obligations.

Accrual misstatements in the general fund were minimal; however, federal and private grant clearance fund accruals were materially misstated due to the council's accruing grants which were not valid obligations at year end.

The Montana Administrative Manual (MAM) sets forth procedures for the council to follow with respect to accruing year-end expenditures.

RECOMMENDATION

We recommend that the council comply with the MAM requirements regarding expenditure accruals.

PHYSICAL INVENTORY

Management Memo 70-17 requires state agencies to conduct physical inventories of fixed assets on an annual basis. However, the council took its first and only physical inventory of fixed assets during June of 1975--five years later. Periodic physical inventories would reveal any discrepancies between the actual assets and the perpetual records. These differences could be the result of assets actually missing or errors in the perpetual records.

RECOMMENDATION

We recommend that the council conduct an annual physical inventory of its fixed assets.

FINAL COMMENTS

We discussed this report with the administrative assistant and the executive director of the Montana Arts Council. The full text of their written response to the report begins on page 22.

We wish to express our appreciation to these officials and their staff for cooperation and assistance during the audit.

FINANCIAL STATEMENTS

MONTANA ARTS COUNCIL
ALL FUNDS
BALANCE SHEET
JUNE 30, 1976

	General Fund	Federal and Private Revenue Fund	Federal and Private Grant Clearance Fund
ASSETS			
Cash in Treasury		$2,759	$12,893
Available to Pay Accrued Support Expenditures	$394	____	____
Total Assets	$394	$2,759	$12,893
LIABILITIES & FUND BALANCE			
Accrued Support Expenditures	$394	$2,136	$ 9,210
Fund Balance	___	623	3,683
Total Liabilities and Fund Balance	$394	$2,759	$12,893

(See accompanying notes)

MONTANA ARTS COUNCIL
ALL FUNDS
STATEMENT OF REVENUE COMPARED TO REVENUE ESTIMATES
FISCAL YEAR ENDED JUNE 30, 1976

Revenue Category	Federal and Private Revenue Fund		Federal and Private Grant Clearance Fund		Total	
	Estimated	Actual	Estimated	Actual	Estimated	Actual
Grants, Gifts, Bequests, Donations						
Federal Grants	$28,740	$27,626	$310,000	$268,124	$338,740	$295,750
Community Matching Grants				25,577		25,577
Donations			6,000	4,083	6,000	4,083
Grand Total	$28,740	$27,626	$316,000	$297,784	$344,740	$325,410

(See accompanying notes)

MONTANA ARTS COUNCIL
ALL FUNDS
STATEMENT OF EXPENDITURES COMPARED TO APPROPRIATIONS
FISCAL YEAR ENDED JUNE 30, 1976

	Promotion of the Arts
General Fund	
Appropriation	$ 47,423
Expended	47,423
Unexpended Balance	$ -0-
Federal and Private Revenue Fund	
Appropriation	$ 27,626
Expended	27,626
Unexpended Balance	$ -0-
Federal and Private Grant Clearance Fund[1]	
Expended	$293,629

[1]Does not require an appropriation

(See accompanying notes)

MONTANA ARTS COUNCIL
ALL FUNDS
STATEMENT OF CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 1976

	General Fund	Federal and Private Revenue Fund	Federal and Private Grant Clearance Fund
Balance July 1, 1975		$ 623	$ 1,789
Additions:			
Appropriated from the general fund	$47,423		
Revenue		27,626	297,784
Total balance plus additions	47,423	28,249	299,573
Deductions:			
Expenditures	47,423	27,626	293,629
Prior year expenditure adjustment			2,261
Total deductions	47,423	27,626	295,890
Balance June 30, 1976	$ -0-	$ 623	$ 3,683

(See accompanying notes)

MONTANA ARTS COUNCIL
ALL FUNDS
STATEMENT OF EXPENDITURES BY OBJECT
FISCAL YEAR ENDED JUNE 30, 1976

	Promotion of the Arts
Personal Services	
Salaries	$ 51,526
Employee Benefits	5,926
Total Personal Services	57,452
Operating Expenses	
Contracted Services	269
Supplies and Materials	906
Communications	2,490
Travel	3,812
Rent	3,846
Other Expenses	130
Total Operating Expenses	11,453
Equipment	1,144
Grants	
From State Sources	5,000
From Federal Sources	293,629
Total Grants	298,629
Total Expenditures	$368,678

(See accompanying notes)

MONTANA ARTS COUNCIL
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS
FISCAL YEAR ENDED JUNE 30, 1976

Beginning Balance, July 1, 1975	$4,260
Additions:	
Office Equipment	2,052
Ending Balance, June 30, 1976	$6,312

MONTANA ARTS COUNCIL

NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 1976

1. Summary of Significant Accounting Policies

The preceding financial statements were prepared from the Statewide Budgeting and Accounting System with the exception of the financial statements for general fixed assets. The Statewide Budgeting and Accounting System does not include a system of recording general fixed assets; therefore, the financial statements for general fixed assets were prepared from agency records.

The financial statements were prepared on the modified accrual basis of accounting. Modified accrual is defined as "that method of accounting in which expenditures are recorded on the basis of valid obligations and revenues are recorded when received in cash. At the end of a fiscal year, all valid obligations against an appropriation are to be accrued as expenditures as provided by the law." (Montana Administrative Manual, 2-0240.40.)

2. Retirement Plan

Employees of the council are covered by the Public Employees' Retirement System, a contributory plan under which the state contributes 5.55 percent of an employee's gross wages and the employee contributes 6 percent of his gross wages to the plan. The council incurred pension costs of $2,737 during fiscal year 1975-76. The state's policy is to fund accrued pension costs.

3. Vacation and Sick Pay

Liabilities incurred because of employees' unused vacation and sick pay are not recorded. The related expenditures are recorded when paid.

Permanent employees are allowed to accumulate and carry over into a new calendar year a maximum of two times their annual accumulation of vacation. Upon termination, qualifying permanent employees having unused accumulated vacation and sick leave receive payment for vacation on a 100 percent basis and sick leave on a 25 percent basis. The amount of the liability associated with unused, accumulated vacation and sick leave at June 30, 1976, is maintained on an hourly basis rather than by dollar amount. The monetary liability is not calculated until an employee terminates.

4. Assets Held In Trust

In addition to the fixed assets shown in the financial statements, the council maintains possession of art works owned by individuals. Neither the cost nor fair market value of these assets is available.

5. Capitalization Procedure

The state's current policy regarding fixed assets requires agencies to capitalize only those assets which cost $100 or more and have a useful life of more than one year. The council records all fixed asset expenditures to the respective expenditure code regardless of cost, thus fixed assets recorded on the statement of expenditures by object, page 18, does not correspond to the fixed assets capitalized and shown on the statement of changes in general fixed assets, page 19.

AGENCY REPLY

RECEIVED
AUG 19 1977
MONTANA LEGISLATIVE AUDITOR

August 18, 1977

Morris L. Brusett
Legislative Auditor's Office
State Capitol
Helena, Montana 59601

Dear Mr. Brusett:

This letter is in response to your request for our written reply to the Montana Arts Council audit report by the office of the legislative auditor. The Montana Arts Council is a small agency and its operational structure is based on the premise that there is an inherent efficiency in a small operation with a highly dedicated staff.

We concur with the findings of the audit and find the recommendations ultimately reasonable. We trust that in compliance with them the Council will yield none of its authority in the distribution of funds from all sources for the betterment of the arts in Montana.

With the exception of the recommendation that the Council transfer certain grant monies to the Federal and Private Revenue fund, which will be somewhat of a lengthy process requiring a number of budget amendments, we have already taken action to implement all the audit recommendations.

In accepting the legislative audit recommendations, the term "We concur" refers to the Chairperson and the Executive Director of the Montana Arts Council.

Sincerely,

David E. Nelson

David E. Nelson
Executive Director

DEN:jmc
Encl.

MONTANA ARTS COUNCIL/235 EAST PINE STREET/MISSOULA, MT 59801/PHONE 543-8286

RECOMMENDATION

We recommend that the council:

1. Discontinue making payments to sub-grantees prior to the execution of the grant contract.
2. Execute contracts with all sub-grantees.
3. Retain written documentation supporting additional funds granted to sub-grantees.

WE CONCUR.

RECOMMENDATION

We recommend that the council make all payments to sub-grantees payable to the art organization which received the grant.

WE CONCUR.

RECOMMENDATION

We recommend that the council require a financial statement comparable to the Internal Revenue Service's form 990 from all organizations seeking general support grants.

WE CONCUR.

RECOMMENDATION

We recommend that the council discontinue funding any grantee which fails to maintain adequate records supporting grant expenditures.

WE CONCUR.

RECOMMENDATION

We recommend that the council require:

1. Employees to record their own time and attendance on a standard time and attendance record.
2. Supervisors to approve time and attendance records.
3. Payroll personnel to base the actual payroll on time and attendance records prepared by the employees.
4. Employees to use standard forms prepared by the Department of Administration regarding employee leave.
5. Payroll personnel to maintain complete and up-to-date personnel files.

WE CONCUR.

RECOMMENDATION

We recommend that the council:

1. Record all money in a cash log at the time it is received.
2. Restrictively endorse negotiable instruments at the time of initial receipt.
3. Adequately secure all collections.
4. Deposit moneys in local banks as prescribed by the Montana Administrative Manual.
5. Reconcile the money recorded in the cash log to the money deposited.
6. Use prenumbered invoices and check them against subsequent collections and deposits.

WE CONCUR.

RECOMMENDATION

We recommend that the council transfer grant moneys to be used for the operation of state government to the federal and private revenue fund prior to disbursement.

WE CONCUR. While we feel concurrence with this recommendation is desirable to the degree that it makes our agency more accountable to the public by providing our funding structure more visibility through the legislative audit process, we are concerned that the matching requirements of these funds, which are matched by over one hundred private sources in lieu of state support, places us in a unique trustee position of federal and private funds which involve no state general fund commitments. We feel that the appropriating of these funds may have ramifications beyond those which we presently can identify.

RECOMMENDATION

We recommend that the council comply with Section 40-3905.1, R.C.M. 1947, regarding the state's health insurance contributions.

WE CONCUR.

RECOMMENDATION

We recommend that the council execute contracts with all individuals performing professional services for the council.

WE CONCUR.

RECOMMENDATION

We recommend that the council comply with Chapter 1-0900 of the MAM regarding personal long distance calls.

WE CONCUR.

RECOMMENDATION

We recommend that the council properly secure its postage at all times.

WE CONCUR.

RECOMMENDATION

We recommend that the council determine the extent of its potential liability regarding the assets it holds in trust and take the necessary steps to prevent loss to the state.

WE CONCUR.

RECOMMENDATION

We recommend that the council:

1. Retain documentation at the agency supporting all expenditures.
2. Require all necessary details on travel claims.

WE CONCUR.

RECOMMENDATION

We recommend that the council comply with the MAM requirements regarding expenditure accruals.

WE CONCUR.

RECOMMENDATION

We recommend that the council conduct an annual physical inventory of its fixed assets.

WE CONCUR.